REFERENCE MATERIAL[1]
ON THE
OPERATIONAL RISK ASSESSMENT FRAMEWORK (ORAF)

FINANCIAL MANAGEMENT

I. Introduction

1- By identifying and assessing key FM risks, FMSs contribute to decisions on the design and intensity of project preparation and implementation support, and inform the development of mitigation strategies to address key weaknesses and risks. In investment lending operations, one of the main risks that concern FMSs is fiduciary risk—the risk that loan proceeds will not be used for the purposes intended. FM risk, a component of fiduciary risk, is a combination of inherent risk (i.e. country-, sector-, and project-specific factors) and control risk . It is assessed at entry for each project, and is monitored in a structured way throughout the life of the project. The FM risk model, which has a qualitative focus and takes into consideration the probability that the risk will occur and the impact of that risk on the project, is based on principles embodied in internationally recognized good practices; it involves assessing the project's inherent risk and control risk, and considering the effects of mitigation measures to arrive at the residual risk. The assessed FM risk serves as an input to the Operational Risk Assessment Framework (ORAF).

2- The ORAF is a tool to help managers and task teams look systematically and holistically at risks to achieving project development objectives from identification through implementation. In particular, at project identification stage, it is used to weigh trade-offs between expected project results and related risks. The ORAF simultaneously serves to differentiate projects on the basis of risk that in turn will help determine the processing path (track I and track II) and documentation requirements during preparation and as part of the determination of implementation support timing and intensity.

3- The purpose of this note is to provide reference materials to facilitate FMSs'involvement in the ORAF process.

II. Background

4- The risk template that is prepared with the ORAF is a dynamic product. It is to be prepared by teams, including FM Staff, in an integrated way and in a manner that allows the discussion of a wide spectrum of risk aspects, drawing on all of the rich array of knowledge possessed by team members (and country and sector specialists). It also is to be carried out throughout the whole preparation process and into implementation.

5- The risks being assessed are risks to the achievement of key results linked to the project development objectives. This is clearly in line with the FM Manual, which states: *"By adhering to these FM principles, the Bank helps partner countries comply with Bank fiduciary requirements and enhance the development impact of investment lending operations….with a view to facilitating achievement of each project's development objectives."* The ORAF can only be undertaken after the team has established the overall development objectives (DO)—what is the operation designed to achieve? It is also important to establish the two or three key measureable and monitorable indicators to show progress toward the achievement of the key results.

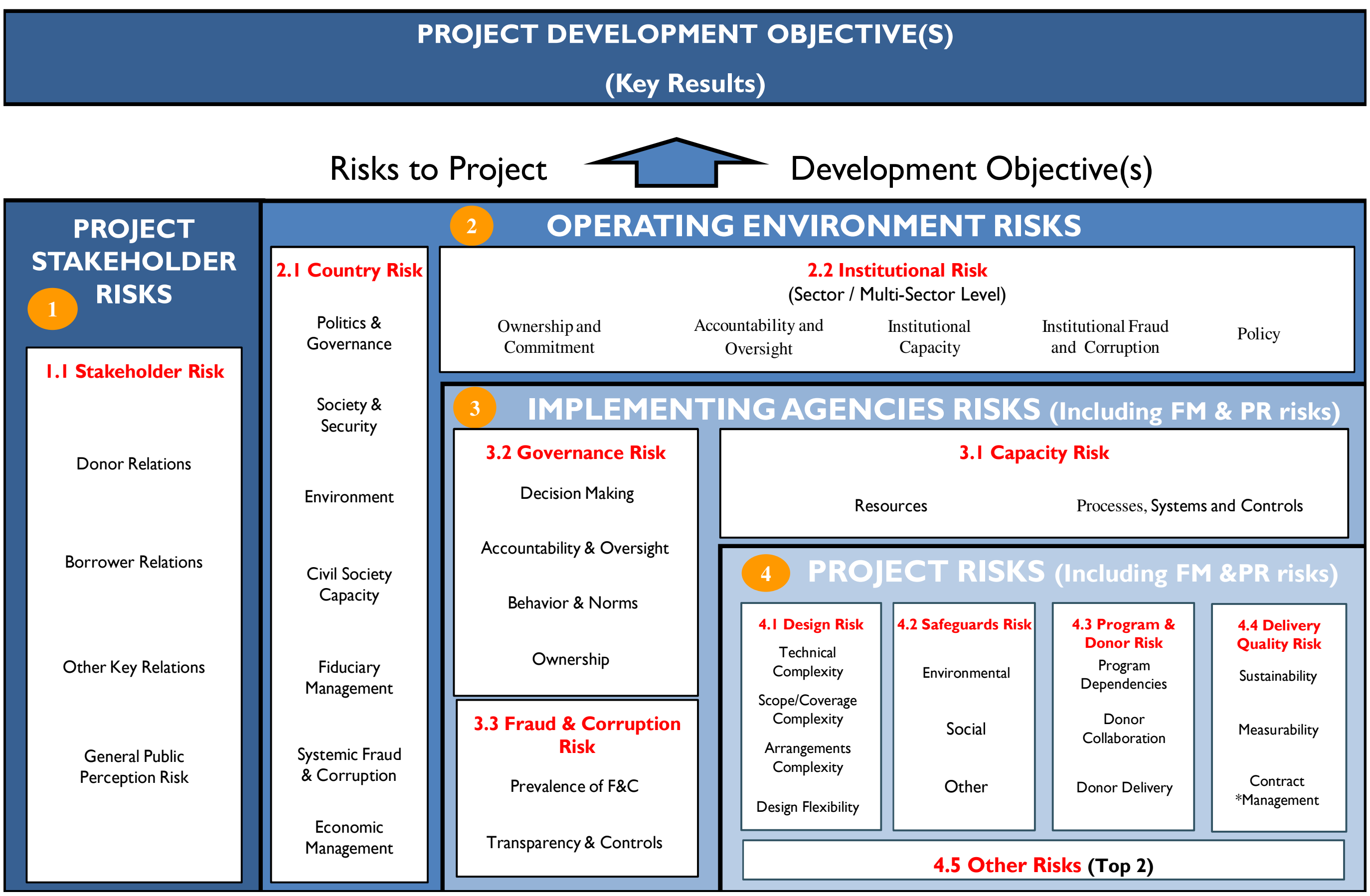
[1] This Guidance Note heavily borrows from: **(i)** Financial Management Manual, **(ii)** Guidance Note on ORAF drafted by the IL Reform Team and **(iii)** AFTFM Risk Rating Principles Note.

6- During project identification and through preparation and implementation, the task team, including FM Staff, discusses risk issues with its counterparts—specifically agency, project, and stakeholder risks. As stated among the principles in the FM Manual, communication is important. Teams are encouraged to provide a candid assessment but how the assessment is delivered is important. The other important dimension to convey is the systematic nature of the risk framework and how it will be used to better help address design, implementation and portfolio issues.

7- The ORAF captures risks to achieving project development objectives using a nested approach. Risks are measured starting with the overall country and institutional setting, of which the task teams need to be *aware* (which most projects have to take as a given). The next level is the agency, where there is scope to better *influence* the level of risk (for example through mitigation measures that the agency undertakes). The last level isthe project level, where there is the greatest scope for *controlling* risk levels through project design and implementation. Across these three levels, there are 10 risk areas to be evaluated plus one optional category. See diagram below:

8- FM Staff, as an integral part of the task team, are involved in the ORAF discussions, preparation and meetings. The FM Staff's contribution will vary depending on the nature of the risk being assessed. For example, areas such as the capacity risk of the Implementing Agency will have more input from the FM Staff compared to an area such as security. FM Staff will contribute substantially to the assessment of risks such as Fraud and Corruption, Governance, Design Risks, etc.

Operational Risk Assessment Framework (ORAF)



III. ORAF and the FM Risk Model

Summary of linkage between FM Risk Model and ORAF:

FM Risk Model	ORAF
Inherent Risk	
Country Risk	ORAF Section 2.1 Country Risks
Sector Risk	ORAF Section 2.2 Institutional Risk
Project Risk	ORAF Section 4 Project Risks
Control Risk	ORAF Section 3.1 Capacity Risks
Detection Risk	ORAF Section: Annex I

- **Inherent Risk –** is defined as that which arises from the environment in which the project is situated. It is the risk that the project financial management system does not operate as intended due to factors such as country or sector governance environment, rules and regulations. Inherent risk comprises three elements:

  1- Country level risks (ORAF Section: 2.1 Country Risks)

  These risks are determined at a portfolio level, for each fiscal year. These remain the same for all projects for which a risk assessment is being undertaken during the relevant fiscal year. In other words, the project FMS, at this stage, cannot change this risk and should normally rely on the FM assessments conducted on the country level in the past (e.g., PEFA or CFAA)[2].

Risk Indicators	Guiding Questions
- PFM Diagnostic reports revealed misuse of public funds or high risk or use of public funds - PFM Diagnostic reports reveal a high incidence of formalism and non-compliance with laws and regulations. - Government audited financial reports are in arrears. - Repeal of major law aimed at reducing corruption. - Closing of an effective anticorruption agency. - Major security failure occurs, notably one affecting the Bank's ability to provide implementation support on the ground.	- Is there an appropriate legal framework observed in practice covering all aspects of PFM (budgeting, accounting, reporting and auditing) procurement, and contract management? - To what extent are donor funds (including project funds) integrated into the overall budget, and into the government's accounting system? - How predictable is the flow of funds to spending ministries and to what extent do spending ministries received their full budget allocation? - What are the quality and timeliness of the government's annual external fiscal statements and are the statements audited?

[2] Considering the irregularity of conducting CFAA and PEFA, AFR FM, for instance, uses the annual CPIA score for Q13 to determine the country FM risk rating for each country. Under this approach, CPIA scores within certain ranges correspond to a risk rating of High, Substantial, Moderate and Low,

(CPIA Question 13 covers Quality of Budgetary and Financial Management in the Public Sector and Question 16 which covers Transparency, Accountability and Corruption in the Public Sector latest ratings for the country in question are a good guide. Other key guidance comes from CFAAs and CPARs. If PEFA Performance Measurement Framework indicators are available, they also provide valuable guidance.)

2- Sector level risks (ORAF Section: 2.2 Institutional Risks)

These risks are determined for the sector and multi-sectors that where the proposed operation will be implemented. These risks may vary between projects, even if in the same sector/sectors. Project FMS should build on the fiduciary work done for the sector (e.g., Sectoral Fiduciary Assessments).

Risk Indicators	Guiding Questions
- Sectoral Fiduciary Assessment reports revealed a high incidence of non compliance with laws and regulations and/or weak capacities. - Sectoral governance, systemic corruption, and at times the riskiness of the World Bank portfolio in a particular country. - A sector-level institution is politicized, with technical staff, including FM staff, replaced by political appointees without sector or FM expertise. - A sector-level institution's budget shrinks significantly. - Major incident of fraud or corruption uncovered in sector-level organization during project. - Major policy change in a key organization that effectively undermines successful project execution from a FM perspective.	- If there is more than one organization involved, to what extent do the organizations in question have overlap in responsibilities? - To what extent do they understand their distinct roles and responsibilities? - To what extent are there organizational accountability and oversight systems and to what extent are they understood by staff and used effectively? - To what extent do the organizations involved make timely and informed decisions on budgets, programming, and staffing? How effectively do they react to major surprises and challenges? - To what extent do the organizations involved have adequately trained staff who can handle the responsibilities to which they are assigned? - To what extent do the organizations involved have effective systems for renewing leadership and sector skills as managers and staff rotations or leave and to what extent do they follow open and transparent processes in hiring and promoting staff? - To what extent are budgets adequate to deliver on organizational mandates? - To what extent do they have sound controls over expenditures and procurement in place and to what extent are these controls used effectively? - To what extent are organizational budgets audited, to what level of quality, and to what extent are audit findings actively used? - To what extent are the policies of the organizations involved in the project well designed and adequately comprehensive? - To what extent do they support the overall strategy of the government? - To what extent are the policies accepted and embraced by staff and soundly implemented?

(Fiduciary Sectoral Assessment reports provide valuable guidance on sectors.)

3- *Project level risks (ORAF Section: 4 Project Risks)*

These risks are assessed on a project specific basis. These risks are posed by the project's complexity, size and type of lending instrument.

Risk Indicators	Guiding Questions
- Involves highly decentralized implementation arrangement. - Involves multiple implementing entities. - Involves large number of spending units. - Involves payment of cash (e.g. to beneficiaries). - Many of the design elements and /or implementation arrangements would not be in place by Effectiveness, as in rapid response/emergency projects	- How many components and subcomponents does the project have? - To what extent is the project design informed by and incorporated lessons of previous projects in this sector or country? - To what extent does the project have activities in different locations? - To what extent are project activities spread over a wide geographical area? - How accessible are locations with project activities? - How many parties are required to complete necessary implementation activities? - To what extent does the project require the establishment of new arrangements?

Inherent Risk Guiding Assumptions:

- For repeater projects or additional financing projects, the project risk ratings would normally be consistent with latest ratings on the previous or original project.
- Some projects have higher risk profile due to the nature of project activities e.g., (a) projects incorporating cash transfers, block grants, compensation payments; (b) projects with large volume of payment transactions, including cash payments; (c) projects involving extensive sub-national/decentralized institutions, large number of spending units and/or many widely dispersed spending units e.g., CDD projects; (d) projects where it is inherently difficult to monitor outputs (e.g., avian flu, HIV/AIDS) or output-based disbursement projects which require some degree of sophistication in determining appropriate unit costs and measurement of outputs/results; (e) projects with several innovative components.
- On the other hand, projects involving limited number of contracts with clearly defined activities and outputs (e.g., in the infrastructure sector) would have lower risk profile. However, some infrastructure projects e.g., in the roads sector could have higher risk profile due to corruption vulnerability (e.g., measurement of quality and quantity of outputs, cost inflation, payment delays, etc).
- Large sector wide operations would likely have higher risk profile given their large scope and size, and the involvement of multiple partners.
- Projects with simple implementation arrangements lend themselves to lower risk ratings while those with complex and/or fragmented implementation arrangements would likely have higher risk ratings. Projects with multiple implementing entities and substantial consolidation features (particularly across sectors) would also likely have higher risk ratings. Similarly, regional projects which have inherently more complex design would

also likely have higher risk profile. Correspondingly, single sector projects with few spending units likely have lower risk profile.

- Rapid response/emergency projects where many of the design elements/implementation arrangements are not yet in place by Effectiveness would likely have higher risk profile at Effectiveness. The risk would progressively reduce as the mitigating measures are implemented during the implementation phase.

- **Control Risk –** ***ORAF Section: 3 Implementing Agencies Risks (with a special focus on 3.1 Capacity Risks).*** Control Risk is the risk that the project's financial management system is inadequate to ensure project funds are used economically and efficiently and for the purpose intended. Control risk is measured by reference to the six elements of Financial Management as defined in OP10.02 *Financial Management,* Paragraph 1 and the FM Manual.

Risk and Guiding Questions:

Budgeting: Risk would be lower when the project has: (a) well developed cost and financing estimates; (b) adequate system for budgeting and allocation of necessary funds (including counterpart funds and those provided by other partners); (c) adequate system for monitoring actual vis-à-vis budgets. Risk would be higher when these elements are not adequately developed or are not functioning well. Questions:

- Are the project plans and budgets realistic, based on valid assumptions and developed by knowledgeable individuals?
- Are procedures in place to plan project activities and prepare related budgets, and to collect information from the units in charge of the different components?
- Are budgets prepared for all significant activities in sufficient detail to provide a meaningful tool with which to monitor subsequent performance?
- Are approvals for variations from the budget required in advance?

Accounting: Risk would be lower when the implementing agency(ies) has: (a) satisfactory accounting policies and procedures which are adequately documented and are applied in practice; (b) satisfactory accounting standards; (c) adequate staffing of the accounting function; (d) proper accounting and bookkeeping system, including an appropriate classification system/Chart of Accounts. Risk would be higher when these elements are not adequately developed or are not functioning well; or when a new system would have to be introduced e.g., switchover from manual to computerized system. Questions:

- Does the entity adopt acceptable national/international accounting standards?
- Are there written policies and procedures covering all routine accounting and related administrative activities?
- Is the accounting function staffed adequately with experienced and qualified persons?
- Is the chart of accounts adequate, or can it be adapted to properly account for, and report on, all project activities?
- Is the Is the accounting/reporting system computerized? If not, are the manual systems adequate to account for project activities in a timely manner?

Internal Control: Risk would be lower when the implementing agency(ies) have in place adequate internal control systems appropriate to the nature of project activities, and commensurate with the size and scope of the project. This includes adequate control environment; risk assessment and management; control activities (appropriate policies, systems and procedures, including adequate segregation of duties, reconciliations, approval and authorization controls; policies with regard to business ethics, code of conduct, related party transactions; controls over fixed assets and stocks; staffing; effective internal audit function); effective information and communication systems; and monitoring, including management oversight. Risk would be higher when these elements are not adequately developed or not functioning well. Questions:

- Are approval and authorization controls in place and properly documented?
- Do policies and procedures clearly define *conflict of interest* and *related party transactions* (real and apparent) and provide safeguards to protect the organization from them?
- Are bank reconciliations prepared by someone other than those who process or approve payments? Are all unusual items on the bank reconciliation reviewed and approved by a responsible official?
- Are memorandum records of fixed assets and stocks kept up to date and reconciled with control accounts? Are assets sufficiently covered by insurance policies?
- Is the internal audit function effective – are actions taken on the audit findings?

Funds Flow: This takes into account whether the funds flow arrangements are relatively simple or more complex. Where the funds flow arrangements are more complex, funds flow risk is higher. Where the funds flow arrangements are fairly straightforward and simple, funds flow risk is lower. In addition, risk would be lower when: (a) funds flow arrangements (to the project agency, and from the project agency to the various spending units) have been well designed and documented; (b) banking arrangements are adequate; (c) satisfactory arrangements exist to ensure timely availability of funds (government funds and those provided by development partners); (d) there are adequate guidelines and systems for community contributions; (e) systems to ensure timely payments are in place; (f) common funds flow arrangements are followed for different funding sources, and (g) the entity has adequate capacity and experience to manage the funds flow process efficiently. Risk would be higher when these elements are not adequately developed or are not functioning well. Questions:

- Does the entity have any previous experience of Bank's disbursement procedures?
- Are the arrangements to transfer the proceeds of the loan (from the government / ministry of finance) to the entity and from the entity to each of the implementing units satisfactory and in compliance with the Bank's disbursement policies and procedures?
- Are the beneficiaries required to contribute to project costs? If beneficiaries have an option to contribute in kind (in the form of labor), are proper guidelines formulated to record and value the labor contribution?

Financial Reporting: Risk would be lower when there is timely and quality financial reporting, and there are adequate systems to ensure this. Relevant factors include: (a) the compilation of accounting information is relatively simple (particularly across implementing agencies); (b) reporting and consolidation responsibilities are clearly laid out; (c) content and form of the financial reporting is meaningful and the reports are being reviewed and used regularly; (d) there is an adequate accounting system that facilitates timely and quality financial reporting. Risk would be higher when these arrangements are not in place or are not functioning well. Questions:

- Has the project established & documented financial reporting responsibilities that specify what reports are to be prepared, when they are to be prepared, periodicity of preparation and content?
- Are financial reports used by management?

- Do the financial reports compare actual expenditures with budgeted and programmed allocations?

Auditing. Risk would be lower when: (a) satisfactory audits are being carried out commensurate with the nature and scope of project activities; (b) quality and timely audit reports are being produced; and (c) the audits are being adequately followed-up. Relevant factors include satisfactory quality auditors, use of appropriate auditing standards, and satisfactory audit scope and terms of reference. Risk would be higher when these elements are not in place or are not functioning well. Questions:

- Is the entity financial statement audited regularly by an independent auditor? Who appoints the auditor?
- Are the audit reports up to date?
- Is the audit of the entity conducted in accordance with international standards on auditing or other acceptable standards?
- Were any major accountability issues identified in the audit report of the past three years?
- Has the project prepared acceptable terms of reference for an annual audit?

Control Risk Guiding Assumptions:

- The entity's performance track record in the implementation of ongoing and/or previous Bank-financed project or project financed by other development partners is a major factor. An entity with good performance track record would have lower risk profile while that with a poor record would have higher risk profile.
- For repeater projects or additional financing projects, the entity risk ratings would normally be consistent with latest ratings on the previous or original project.
- Other factors to be considered, particularly when the entity has not been previously involved in Bank-financed projects, include: (a) the entity's record of financial probity, good governance, and internal controls (reflected for example in its audited financial statements and management letters, and overall reputation); and (b) the entity's capacity to handle the size and scale of the project (taking into account its current level of operations and staffing), and its experience with similar activities. An entity with a good track record and capacity/experience would have lower risk while that with insufficient or unsatisfactory record would have higher risk.

- **Detection Risk –** ***ORAF Section: Annex I – Rating Annex. Actions to lower the detection risk to be discussed in the Annex in the columns titled: (a) Proposed Mitigating Measures and (b) Timing for Mitigation Preparation/Implementation.*** Detection Risk is the risk that a material misuse of loan proceeds fails to be detected. Detection risk is lowered by:

  - Proposing capacity strengthening measures for the weaknesses identified as posing unacceptable levels of risk; and/or
  - Increasing supervision intensity, for example, as set out in the table below. It is worth noting that Regions' FM Guidelines determine the frequency of on site visits depending on risk level.

FM staff propose actions, as appropriate, to mitigate risks[3] to an acceptable level bearing in mind the specifics of the environment in which the proposed operation will be implemented. For example, the risk mitigating measures that can be put in place will differ between a post conflict environment and a politically stable but otherwise low capacity environment.

Risk scoring should not take into account risk mitigation efforts that are at the planning stage and will be implemented by the project or others after credit effectiveness. Only controls, policies, or approaches that are currently in place and functioning should be considered in the assessment.

Detection Risk Guiding Assumptions:

Risk mitigating measures may result in the following types of actions at the various stages in the project cycle:

(i) at the project concept stage, it may involve making recommendations in respect of appropriate lending instruments;

(ii) during project appraisal it may result in: recommendations to include the use of a project implementing entity or to avoid the use of certain entities; specific capacity strengthening to be undertaken prior to the commencement of project implementation; the incorporation of technical audits; and the use of specific disbursement arrangements;

(iii) during project implementation it may determine the extent and timing of Bank FM supervision including how often to visit the premises of the client or whether remedial capacity strengthening is required.

IV. Rating Scale

- **Likelihood versus impact.** The risk factors are assessed against two dimensions: the probability (likelihood) that the risk will occur and the impact of the risk on the Project Development Objective or Objectives (PDOs). A rating of 1 corresponds to a risk factor with a low likelihood of occurring and low impact if does occur. A rating of 4 corresponds to high likelihood and high impact on the PDOs. Substantial/high likelihood but low/moderate impact risks would tend to be rated as 2 and low/moderate likelihood but substantial/high impact as 3. However, likelihood and impact run along a continuum. Teams are asked to use their best judgment in taking likelihood and impact into account in doing the ratings.

- **Overall risk rating**. Following the rating of the ten risk factors (plus the optional "other risks" category), the Team Leader (TL) and his/her team members, including FM staff, rate the overall risk for the project (again on a scale of 1 to 4), keeping in mind that the risk is in relation to the objectives (results) to be achieved. The overall rating is not an average of the individual scores. It is based on judgment and experience. For example, it is possible that one particular element rated as a 4 makes the overall project high risk in the eyes of the task team. In other cases, several elements rated as 3 or 4 might be judged as not seriously endangering the achievement of the project development objectives and not taking the operation out of the 1 or 2 (likely express lane) category. A good example here is a high risk country but one where the operation may be low risk despite the high score for the country risk.

- The impact of the risk on the overall FM arrangement and the likelihood of the risk materializing (i.e. the probability of occurrence) are also considered as noted below.

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[3] Task Team should identify mitigation measures planned for preparation and implementation, even though these, cannot affect the risk ratings at the PCN stage. The key mitigation measures are transferred to the ISR. The team monitors, reviews, and reports on progress during implementation. The team assesses whether risk has been reduced as a result and adjusts risk ratings accordingly at that time.

Impact if risk materializes	Likelihood of risk materializing	Risk rating would likely be
Low	Low	Low
Low	High	Modest
High	Low	Substantial
High	High	High

This is not a mechanical process and FM Staff are expected to use their professional judgment in developing these risk ratings. In a holistic manner, FM Staff are expected to keep impact and likelihood when developing the relevant risks.

V. ORAF Assessment Template

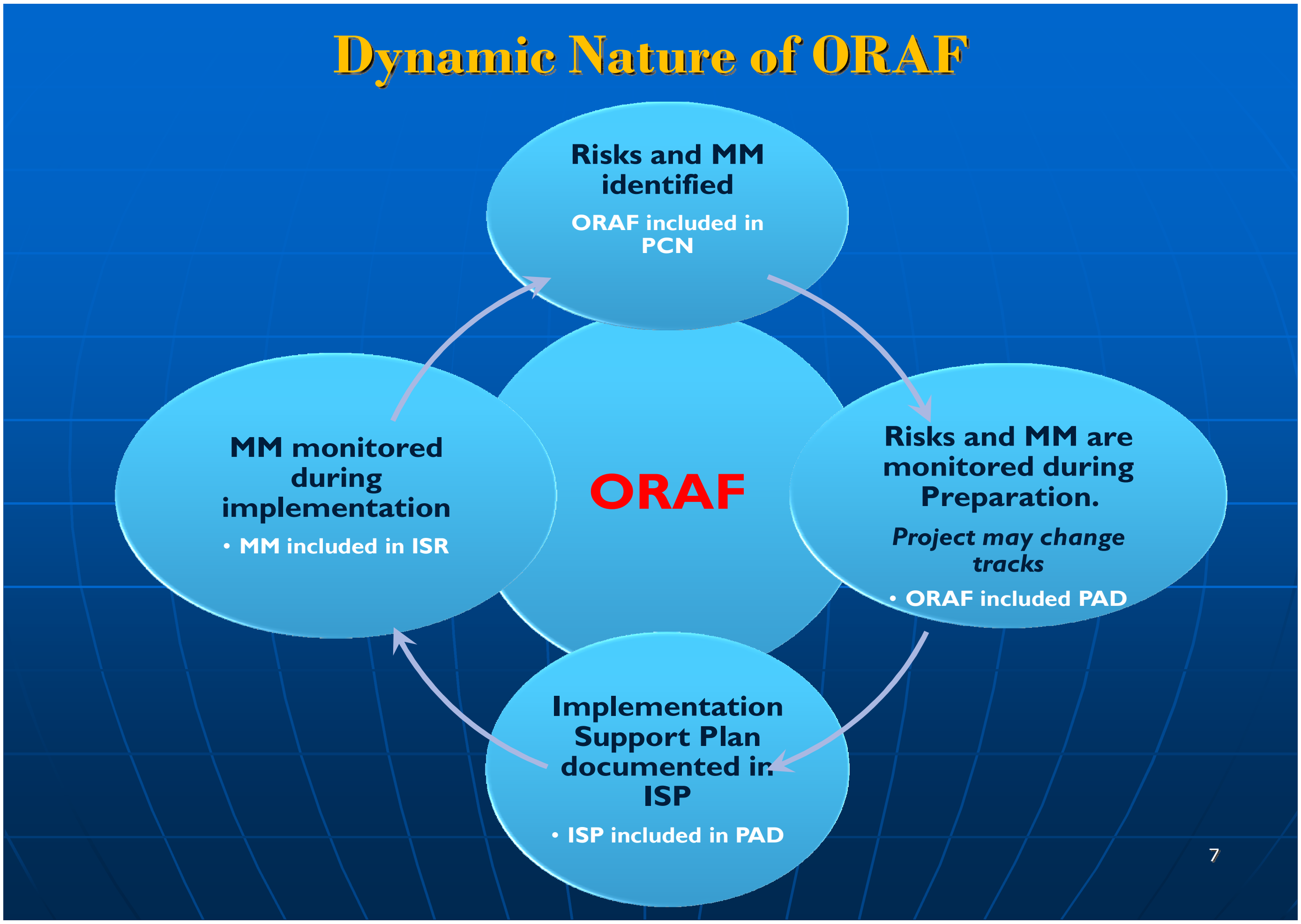
After the task team discussions on the risk ratings, the team uses the **ORAF Assessment Template** (see annex 1) in the PCN for recording the risk assessment with the explanation of each of the ratings (which should be concise, a few sentences at most, explaining for example which risk or risks are most relevant under each heading and why the team chose the rating shown). In explaining risk ratings, teams should cite evidence and lessons learned (both positive and negative) from similar operations or from other sources, or the lack thereof, as this evidence is important as part of the justification for the ratings. The team also records the mitigation measures proposed for preparation and those proposed for implementation. The task team also records its overall project risk rating for both preparation and implementation using the template.

The comprehensive risk assessment embodied in the ORAF cannot be the product of just one person. It requires the knowledge of all task team members, the CMU, and the relevant SMU. Key members of the team (including procurement, FM, and Safeguard team members), representatives from the CMU and relevant SMU who have provided the country and institutional ratings, and the country lawyer are expected to come prepared for the discussion, meet (face to face or via video if possible and at least virtually if that is not possible), have a frank exchange of views, and come to consensus on the development objectives, key results expected, and the risk ratings for inclusion in the PCN.

Other Areas of IL Reform that have an Impact on Risk Assessment and Monitoring During Projects' Preparation and Implementation.

Implementation Support Plan (ISP). Is the proposed mechanism by which Management can assess Implementation Support (IS) needs and modalities early on during preparation are an ISP. The ISP will help identify the type of IS needed, align IS with the results and risks associated with the operation, better integrate task team and Management thinking on implementation demands, and, in the process, obtain Management commitment to and support for implementation requirements. It would become a standard annex of the PAD, with annual updates.

Implementation Status and Results Report (ISR). Another important tool for IS management is the ISR, which is being revamped to better report on risks and results. The ISP will form the basis of the initial ISR. As the ISP will be an annex to the PAD, the relevant information from the ISP will be transferred directly to the initial ISR. In response to the IDA controls findings, the ISR risk section will report on risks, including fraud and corruption.



VI. Responsibilities

Three functional risk systems (FM, procurement, and safeguard) feed into the project team's risk analysis. As noted above, the FM, procurement, and safeguard members of the team are responsible to come prepared to participate in the team deliberations and contribute their expertise to the overall team assessment put together for inclusion in the PCN. The ORAF has presented some of these risks in an integrated manner; hence, teamwork is critical for a good ORAF assessment and teams should discuss these functional risks and come up with a common view. Also, it is important that the country lawyer is part of the team discussing the ORAF risk ratings—notably for the PCN. This is especially important for operations that are put on track I, so that the lawyer is familiar early on with the operation and, therefore, well prepared for the express lane approval process.

FM Staff Role during the Project Cycle
• **Project Identification**
a) Preliminary FM Risk Assessment to feed into ORAF b) Contribute to the PCN preparation in accordance with the FM Manual c) Attend the PCN review meeting, as needed d) Update PRIMA
• **Project Preparation and Appraisal**

a) Monitor and update FM risks identified in the ORAF
b) Monitor Mitigating Measures (MM) implementation, those timed during preparation
c) Conduct and record FM Assessment in accordance with the FM Manual
d) Contribute to the PAD, including the ISP
e) Update PRIMA

- **Project Implementation**

a) Monitor MM implementation, those timed during implementation
b) Contribute to the ISR preparation in accordance with the FM Manual
c) Review unaudited IFRs and audited financial statements
d) Review individual transactions, as needed
e) Record implementation support and supervision activities
f) Update PRIMA

FM Manager Responsibilities. FM managers, working with Sector Managers, ensure the timely assignment of appropriate staff to the task team, and the availability of those staff to participate actively in task team risk deliberations, ensuring that PCN meetings are not delayed.

Responsibility of Task Teams for Operations Following Track I—the "Express Lane" Processing Path. For these operations, the task team has the responsibility during preparation to report on new risks that come to light that would change risks ratings and move the project out of the track I category. An update of the ORAF matrix is provided as part of the negotiation package.

Responsibility of the Task Team and Sector Manager during Implementation. For all operations, the task team is responsible for (1) updating the risk rating and (2) reviewing progress made by the country in implementing the key mitigation measures (that transfer from the ORAF to the ISR form) as part of ISR reporting. The Sector Manager confirms the overall risk rating at least once a year through the ISR.

ANNEX I
OPERATIONAL RISK ASSESSMENT FRAMEWORK (ORAF)

{COUNTRY}
{Project Name}

Project Development Objective(s)	
Description:	
Key Results Indicators:	1.
	2.
	3.

ORAF Risk Levels	**Risk Rating**	**Risk Description**	**Rating Explanation**	**Proposed Mitigation Measures**	**Timing for Mitigation: Prep/Impl.**
1. Project Stakeholder Risks					
1.1 Stakeholder Risks					
2. Operating Environment					
2.1 Country Risk					
2.2 Institutional Risk (sector & multi-sector Level)					
3. Implementing Agency Risks (including FM & PR Risks)					
3.1 Capacity Risk					
3.2 Governance Risk					
3.3 Fraud & Corruption Risk					
4. Project Risks					
4.1 Design Risk					

4.2 Safeguards Risk					
4.3 Program and Donor Risk					
4.4 Delivery Quality Risk					
4.5 Other Risks (max 2)					

A - Proposed Rating before Concept Review:

Project Team	**Risk Rating: Preparation**	**Risk Rating: Implementation**	**Date**	**Comments**
Overall Risk				

B - Review by IL Risk Team for Concept Review:

Risk Team	**Risk Rating: Preparation**	**Risk Rating: Implementation**	**Date**	**Comments**
Overall Risk				

Final PCN Rating:

PCN Decision Chair	**Risk Rating: Preparation**	**Risk Rating: Implementation**	**Date**	**Comments**
Overall Risk				